

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: Virtual Zoom Meeting

Meeting Dates: September 8-9, 2020

Agenda Item

C

ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – Cover and Report Back

Objective of Agenda Item

1. The objectives of this agenda item are to:
 - Report back on the IAASB CAG representatives' comments on the project to revise ISA 600 made at the March 2020 meeting; and
 - Update Representatives on the activities of the ISA 600 Task Force (the Task Force) since the March 2020 CAG meeting.

Project Status

2. The IAASB approved the Exposure Draft of Proposed ISA 600 (Revised)¹ (ED-600) at its March 2020 meeting, taking into account the input received from the IAASB CAG and the Board. On April 27, 2020, the Board published ED-600 with an extended exposure period due to the effects of COVID-19. Comments on ED-600 are requested by October 2, 2020.
3. Since the publication of ED-600 the Task Force held two webinars. In the first webinar, the background of the project and the key proposed revisions were explained. The second webinar was dedicated to answering questions in regard to ED-600 submitted to the Task Force by email or obtained through outreach events, including the first webinar. In addition, the Chair and other members of the Task Force participated in several outreach events.
4. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on ISA 600, including links to the relevant IAASB CAG documentation.

IAASB CAG Discussion in September 2020

5. For the purpose of the IAASB CAG discussion, the Task Force prepared a presentation in which the activities of the Task Force since the March CAG 2020 meeting are summarized (**Agenda Item C.1**).

¹ Proposed ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

Feedback

6. Extracts from the draft March 2020 IAASB CAG meeting minutes, as well as an indication of how the Task Force or IAASB has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	Task Force/IAASB Response
GROUP ENGAGEMENT TEAM RESPONSIBILITIES AND INVOLVEMENT OF COMPONENT AUDITORS UNDER THE RISK-BASED APPROACH	
Mr. Hirai and Ms. Zietsman supported the Task Force's direction with respect to the role of component auditors in the risk-based approach.	Support noted.
Mr. Dalkin noted that extant ISA 600 was perceived to be mechanical and prescriptive.	Point noted. Mr. Jui agreed and noted that the risk-based approach was developed to address these concerns and to be responsive to evolving group structures.
Mr. Hirai noted that group structures are becoming more complex and that the use of information technology is often extensive. In that regard, he questioned whether ED-600 should have more guidance on the use of information technology, for example by including examples in Appendix 2 and 3. Ms. Zietsman noted that the use of information technology is sufficiently addressed by the standard and that the concepts included are aligned with current practice.	Point noted. Mr. Jui explained that ED-600 only addresses matters that are special considerations related to group audits and that the standard builds on other standards such as ISA 315 (Revised 2019). ² Mr. Jui noted that the Task Force obtained input from an IT specialist and that two Task Force members were also members of the ISA 315 Task Force. Mr. Jui further noted that the Task Force was of the view that ED-600 includes sufficient guidance on the use of information technology.
Ms. Zietsman suggested to clarify, in paragraph 40, that the group engagement team should communicate with component auditors on a timely basis and throughout the group audit engagement.	Point accepted. Paragraph 43 of ED-600 (paragraph 40 as presented to the CAG in March 2020) has been enhanced and now states that the group engagement team's communications with component auditors 'shall take place at the appropriate points in time throughout the group audit.'

² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Representatives' Comments	Task Force/IAASB Response
<p>Ms. Zietsman further suggested to clarify that some of the matters required by paragraph 41 should be communicated as they happen (for example, non-compliance with laws and regulations or indicators of possible management bias), while other matters could be communicated towards the end of the audit. In addition, she noted that for some of the matters in paragraph 41, the group engagement team may want to understand how the component auditor addressed the matter.</p>	<p>Point noted.</p> <p>Paragraph 43 in ED-600 relates to all communications between the group engagement team and component auditors, including the communications as required by paragraph 44 (paragraph 41 as presented to the CAG in March 2020). Paragraph 43 of ED-600 requires communications to take place at the appropriate points in time throughout the group audit and reflect the component auditor's involvement in various phases of the group audit.</p>
<p>Mr. Hirai added that component auditors should, in addition to uncorrected misstatements as required by paragraph 41(c), also communicate corrected misstatements to the group engagement team as such misstatements may be indicative of internal control deficiencies that are common across components.</p>	<p>Point noted.</p> <p>Paragraph 44(e) of ED-600 requires the component auditor to communicate a description of any deficiencies in the system of internal control identified in connection with the audit procedures performed. This should include the situation when a misstatement is corrected.</p> <p>Also, communicating uncorrected misstatements is consistent with extant ISA 600.</p>
<p>Mr. Hirai noted that it is not clear why paragraph 34 uses 'discuss' and paragraph 35 uses 'evaluate' when both paragraphs deal with further audit procedures to be performed by component auditors. He also noted that the Task Force could clarify what is expected from the group engagement team in its interactions with component auditors.</p>	<p>Point noted.</p> <p>Paragraph 37 of ED-600 (paragraph 34 as presented to the CAG in March 2020) now uses 'communicate' and paragraph 38 of ED-600 (paragraph 35 as presented to the CAG in March 2020) continues to use 'evaluate'.</p> <p>The difference between these paragraphs is that paragraph 38 of ED-600 only relates to areas of higher assessed risks of material misstatement of the group financial statements, including significant risks. Given that, the group engagement team should be more closely involved in evaluating the appropriateness of further audit procedures performed by the component auditor in these areas. To indicate this, different wording is used compared to paragraph 37 in ED-600 (which relates to all further audit procedures)</p>

Representatives' Comments	Task Force/IAASB Response
Mr. Hansen asked whether the wording used in paragraphs 10 and 16 could be more consistent. Paragraph 10 states that the group engagement partner shall be sufficiently and appropriately involved, while paragraph 16 states that the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of the component auditor.	Point noted. Paragraph 12 of ED-600 (paragraph 10 as presented to the CAG in March 2020) is an overarching requirement while paragraph 18 of ED-600 (paragraph 16 as presented to the CAG in March 2020) relates to the specific, and important, evaluation during the acceptance and continuance stage about whether restrictions on access may prevent the group engagement team from being involved in the work of component auditors to the extent necessary to obtain sufficient appropriate audit evidence. Therefore, the evaluation in paragraph 18 is directly related to the overarching requirement in paragraph 12.
Ms. Zietsman noted that paragraph A15 explains that the group engagement partner may assign responsibilities to other members of the engagement team, but that it may not be clear that responsibilities may be assigned to component auditors (for example, with respect to direction and supervision at the component level).	Point noted. Paragraph A19 of ED-600 (paragraph A15 as presented to the CAG in March 2020) states that 'the group engagement partner may assign responsibilities to other members of the engagement team.' Given the proposed revision to the definition of engagement team in proposed ISA 220 (Revised), ³ component auditors are part of the engagement team. Hence, no specific reference to component auditors is made.
Ms. Landell-Mills commented that it is important for investors to understand the nature of the relationship and frequency of interaction between the group engagement team and component auditors. She also questioned whether this standard increases the group auditor's exposure to liability.	Point noted. Mr. Jui noted that the standard was revised to enhance audit quality and that the auditor's liability may depend on the auditor's jurisdiction.
RESTRUCTURING	
Messrs. Hansen and Dalkin and Ms. Zietsman supported the restructuring. Mr. Hansen added that the public interest is not well served if the group engagement team's assessment of the group's	Support noted.

³ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

Representatives' Comments	Task Force/IAASB Response
<p>ability to continue as a going concern is done at the end of the audit, and therefore he supported the new location of the going concern section.</p>	
<p>Mr. Hirai noted that paragraph 25 does not cover communications from the component auditor to the group engagement team on going concern. In that regard, he noted that component auditors may identify events or conditions that may cast significant doubt on the group's ability to continue as a going concern.</p> <p>Mr. Hansen questioned why the group engagement team needs to discuss with component auditors any events or conditions that may cast significant doubt on the component's ability to continue as a going concern.</p> <p>Ms. Zietsman agreed with the matters raised by Messrs. Hirai and Hansen and added that this requirement should be clarified.</p>	<p>Point accepted.</p> <p>Mr. Jui noted that the wording in paragraph 25 (as presented to the CAG in March 2020) has been changed to 'discuss' to emphasize the two-way communication between the group engagement team and component auditors.</p> <p>Paragraph 28 of ED-600 (paragraph 25 as presented to the CAG in March 2020) has been enhanced and now requires the group engagement team to communicate with component auditors any events or conditions identified by:</p> <ul style="list-style-type: none"> • Group management or the group engagement team, that may cast significant doubt on the group's ability to continue as a going concern that are relevant to the work of the component auditor • The component auditor that may cast significant doubt on the group entity's ability to continue as a going concern. <p>The Board was of the view that discussing with component auditors any events or conditions that may cast significant doubt on the component's ability to continue as a going concern is useful as it may affect the component auditor's further audit procedures.</p>
RESTRICTIONS ON ACCESS TO PEOPLE AND INFORMATION	
<p>Ms. Landell-Mills noted that investors would like transparency about any restrictions on access to people and information and questioned whether this could be disclosed in the auditor's report.</p>	<p>Point noted.</p> <p>Mr. Jui noted that the auditor may include a key audit matter on restrictions on access to people and information.</p>
<p>Ms. Zietsman supported the Task Force's direction on restrictions on access to people and information. She noted that restrictions on access to people and information for a non-controlled</p>	<p>Point noted.</p> <p>The Board decided not to add additional guidance for a non-controlled entity or business unit and</p>

Representatives' Comments	Task Force/IAASB Response
entity or business unit (e.g., an equity accounted investee) are different than for a consolidated entity or business unit and questioned whether more guidance is needed to explain that obtaining access to people and information may be more difficult in such circumstances.	instead ask a question (Question 7 in the Explanatory Memorandum). Respondents to ED-600 can suggest additional guidance that may be useful.
Ms. Zietsman suggested to add more context on why asking for a different filing date (as noted in paragraph A27) may overcome access issues, and on how access restrictions may call into question the integrity of group management (as noted in paragraph A28).	Point accepted. The reference to filing date in paragraph A27 as presented to the CAG in March 2020 has been deleted.
MATERIALITY CONSIDERATIONS IN A GROUP AUDIT	
Ms. Zietsman supported the new definition on aggregation risk. She questioned whether the definition of component performance materiality should refer to 'amounts' as this may imply that there is more than one component performance materiality for a single component. Ms. Zietsman also suggested that the Task Force consider the consistency between this definition, paragraph 26 and the related application material.	Point accepted. The definition of component performance materiality in ED-600 was changed and now refers to 'amount.'
DOCUMENTATION	
Mr. Hirai suggested to include a requirement to document the group engagement team's determination of components for purposes of planning and performing audit procedures in a group audit, given the change in the definition of a component.	Point accepted. ED-600 paragraph 57(b) requires the group engagement team to include in the audit documentation 'The group engagement team's determination of components for purposes of planning and performing the group audit.'
Mr. Hirai also suggested to include a list of matters related to communication with component auditors that should be documented, for example, the group audit instructions from the group engagement team and the engagement completion document sent by the component auditors. In addition, he noted that the examples of the group engagement team's documentation of its involvement in the work of	Points noted. ED-600 paragraph 57(e) addresses the documentation of matters related to communication with component auditors. The Board concluded that the matters required to be communicated by paragraphs 27-28, 41 and 44

Representatives' Comments	Task Force/IAASB Response
component auditors, as set out in paragraph A126, should be a requirement.	<p>address the significant matters that should be documented.</p> <p>With respect to the group engagement team's documentation of its involvement in the work of component auditors, the Board concluded that the guidance in ED-600 should be principles-based and build on the requirements of ISA 230,⁴ given the many different facts and circumstances for group audit engagements. Accordingly, paragraph 57(d) requires documentation of the nature, timing and extent of the group engagement team's direction and supervision of component auditors and the review of their work, and is supported by the examples in the application material in paragraph A126.</p>
OTHER MATTERS	
Ms. Zietsman suggested that the Task Force considers the wording of some of the requirements in the acceptance and continuance section as it is not clear that these requirements relate to the acceptance and continuance decision. In that regard, she specifically noted paragraphs 11 and 16.	<p>Point noted.</p> <p>In finalizing ED-600 the Task Force enhanced the acceptance and continuance section as well.</p>
Mr. Sobel noted that the order of the five components of the system of internal control in Appendix 2 is aligned with ISA 315 (Revised 2019), but that the order is different from the COSO Framework ⁵ and therefore may confuse stakeholders.	<p>Point noted.</p> <p>The Board decided to keep the order aligned with ISA 315 (Revised 2019).</p>
WAY FORWARD AND EFFECTIVE DATE	
Mr. Dalkin asked Mr. Jui what the current plan is for finalizing the standard and when the IAASB CAG would next be updated.	Mr. Jui noted that the Board will vote on the ED-600 at its March 2020 meeting. He also noted that the Task Force aims to present a high-level summary of the responses to the Exposure Draft to the

⁴ ISA 230, *Audit Documentation*

⁵ Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Enterprise Risk Management — Integrated Framework*

Representatives' Comments	Task Force/IAASB Response
	<p>IAASB CAG in the IAASB CAG's September 2020 meeting. Mr. Seidenstein added that, if the Board approves the ED-600 in March, it will be published in the latter part of April 2020.</p> <p>Because of COVID-19 pandemic, the Board decided to extend the comment deadline from mid-August until October 2, 2020. As a result, the Task Force will not present a high-level summary of the responses to the Exposure Draft to the IAASB CAG at its September 2020 meeting.</p>
Mr. Orth suggested to align the effective date of ISA 600 (Revised) with the effective dates of the Quality Management standards. ⁶	<p>Point noted.</p> <p>The effective dates of the Quality Management standards will be discussed as part of the discussions on those projects. ED-600 proposes an effective date for financial reporting periods beginning approximately 18 months after approval of a final ISA.</p>
PIOB REMARKS	
Mr. Kashiwagi thanked the Task Force for its work and supported the overall direction of the project.	Support noted.

Material Presented – IAASB CAG Papers

Agenda Item C.1 Presentation

Material Presented – IAASB CAG Reference Papers

Exposure Draft of Proposed ISA 600 (Revised) https://www.ifac.org/system/files/publications/files/Exposure-Draft-ISA-600-Final_0.pdf

⁶ Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework*

Appendix A

Project Details and History

Project: Group Audits – ISA 600

Link to IAASB Project Page: [Group Audits – ISA 600](#)

Task Force Members

The Task Force comprises:

- Len Jui, IAASB Member and Task Force Chair (supported by Susan Jones);
- Robert Dohrer, IAASB Member;
- Josephine Jackson, IAASB Member;
- Rich Sharko, IAASB Member (supported by Jamie Shannon);
- Wolf Böhm, IAASB Technical Advisor; and
- Dora Burzenski, Correspondent Member.

Summary

	IAASB CAG Meeting	IAASB Meeting
Project Commencement	March 2015 September 2015 September 2016	December 2014 March 2015 June 2015 September 2015 December 2015 June 2016 September 2016
Project Proposal	November 2016 Teleconference	December 2016
Development of Exposure Draft	March 2017 September 2017 March 2019 September 2019 March 2020	June 2017 September 2017 December 2017 March 2019 June 2019 September 2019

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IAASB CAG Discussions: Detailed References

Project Commencement	<p><u>March 2015</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B). http://www.ifac.org/meetings/new-york-usa-5</p> <p><u>September 2015</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item F). http://www.iaasb.org/cag/meetings/new-york-usa-0</p> <p><u>September 2016</u> See IAASB CAG meeting material (Agenda Item G). http://www.iaasb.org/cag/meetings/new-york-usa</p>
Project Proposal	<p><u>November 2016</u> See IAASB CAG meeting material (Agenda Item B). www.iaasb.org/cag/meetings/iaasb-cag-conference-call-november-29-2016-730-am-1030-am-est</p>
Development of Exposure Draft	<p><u>March 2017</u> See IAASB CAG meeting material (Agenda Item H). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting</p> <p><u>September 2017</u> See IAASB CAG meeting material (Agenda Item G). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</p> <p><u>March 2019</u> See IAASB CAG meeting material (Agenda Item C) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1</p> <p><u>September 2019</u> See IAASB CAG meeting material (Agenda Item K)</p>

	<p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-2</p> <p><u>March 2020</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item F)</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-3</p>
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